



## Senate

General Assembly

**File No. 49**

January Session, 2013

Substitute Senate Bill No. 387

*Senate, March 18, 2013*

The Committee on Labor and Public Employees reported through SEN. OSTEN of the 19th Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

### ***AN ACT INCREASING THE MINIMUM FAIR WAGE.***

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Subsection (j) of section 31-58 of the general statutes is  
2 repealed and the following is substituted in lieu thereof (*Effective July*  
3 *1, 2013*):

4 (j) "Minimum fair wage" in any industry or occupation in this state  
5 means a wage of not less than six dollars and seventy cents per hour,  
6 and effective January 1, 2003, not less than six dollars and ninety cents  
7 per hour, and effective January 1, 2004, not less than seven dollars and  
8 ten cents per hour, and effective January 1, 2006, not less than seven  
9 dollars and forty cents per hour, and effective January 1, 2007, not less  
10 than seven dollars and sixty-five cents per hour, and effective January  
11 1, 2009, not less than eight dollars per hour, and effective January 1,  
12 2010, not less than eight dollars and twenty-five cents per hour, and  
13 effective January 1, 2014, not less than nine dollars per hour, and  
14 effective January 1, 2015, not less than nine dollars and seventy-five

15 cents per hour or one-half of one per cent rounded to the nearest whole  
16 cent more than the highest federal minimum wage, whichever is  
17 greater, except as may otherwise be established in accordance with the  
18 provisions of this part. Effective July 1, 2015, and not later than each  
19 July fifteenth thereafter, the Labor Commissioner shall announce an  
20 adjustment in the minimum fair wage which shall be equal to the  
21 percentage increase between the last complete calendar year and the  
22 previous calendar year in the consumer price index for urban wage  
23 earners and clerical workers in the northeast urban area of New York-  
24 Northern New Jersey-Long Island, NY-NJ-CT-PA, with no seasonal  
25 adjustment, as calculated by the United States Department of Labor's  
26 Bureau of Labor Statistics, with the amount of the minimum fair wage  
27 increase rounded to the nearest five cents. The minimum fair wage  
28 plus the adjustment announced by the Labor Commissioner on July  
29 fifteenth shall become the new minimum fair wage and shall be  
30 effective on the January first immediately following. All wage orders  
31 in effect on October 1, 1971, wherein a lower minimum fair wage has  
32 been established, are amended to provide for the payment of the  
33 minimum fair wage herein established except as hereinafter provided.  
34 Whenever the highest federal minimum wage is increased, the  
35 minimum fair wage established under this part shall be increased to  
36 the amount of said federal minimum wage plus one-half of one per  
37 cent more than said federal rate, rounded to the nearest whole cent,  
38 effective on the same date as the increase in the highest federal  
39 minimum wage, and shall apply to all wage orders and administrative  
40 regulations then in force. The rates for learners, beginners, and persons  
41 under the age of eighteen years shall be not less than eighty-five per  
42 cent of the minimum fair wage for the first two hundred hours of such  
43 employment and equal to the minimum fair wage thereafter, except  
44 institutional training programs specifically exempted by the  
45 commissioner.

This act shall take effect as follows and shall amend the following sections:

Section 1	July 1, 2013	31-58(j)
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**LAB**      *Joint Favorable Subst.*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

### **OFA Fiscal Note**

#### **State Impact:**

<b>Agency Affected</b>	<b>Fund-Effect</b>	<b>FY 14 \$</b>	<b>FY 15 \$</b>
Various State Agencies	Various Appropriated Funds - Cost	Less than \$265,000	Less than \$540,000

#### **Municipal Impact:**

<b>Municipalities</b>	<b>Effect</b>	<b>FY 14 \$</b>	<b>FY 15 \$</b>
Various Municipalities	STATE MANDATE - Cost	See Below	See Below

### **Explanation**

The bill results in increased payroll and contract costs to the state and municipalities. The bill raises the state minimum hourly wage from \$8.25 to \$9.00 on January 1, 2014, and from \$9.00 to \$9.75 on January 1, 2015. As of July 1, 2015, it requires annual minimum wage adjustments based on increases in the Consumer Price Index (CPI).

#### **Payroll Impact**

An increase in the state minimum wage will have a fiscal impact on the payroll of state and municipal employees (primarily general workers, summer workers, Department of Energy and Environmental Protection seasonal workers, student and senior workers). There would also be a direct increase<sup>1</sup> in social security fringe benefit costs. These state payroll and fringe costs are not anticipated to be

<sup>1</sup> Employers are liable for 6.2% Social Security and 1.45% Medicare taxes.

significant, (estimated at \$15,000 in FY 14 and \$40,000 in FY 15<sup>2</sup>) but could have an impact on a limited number of programs (such as recreational programs) that largely utilize these types of positions.

The bill also increases costs to municipalities that employ minimum wage workers. It is estimated that the City of New Haven would incur costs of approximately \$58,000 in FY 14 and \$220,000 in FY 15. The City employed approximately 1,100 workers in 2012 who earned either minimum wage, or earned higher than minimum wage but lower than the hourly rates set in the bill.

As an additional example, the Town of Avon would incur costs of \$8,000 in FY 14 and \$28,000 in FY 15 as a result of the bill. The Town employs approximately 60 seasonal minimum wage workers in its Parks and Recreation and Public Works departments.

The impact to municipalities will vary depending on the number of minimum wage workers they employ and the extent of the services they provide.

### ***Contract Impact***

In addition, the bill will increase certain state contract costs. All state service contracts exceeding \$50,000 require the state to pay standard wage (which is higher than the bill's proposed minimum wage increase) and therefore would not be impacted. However, service contracts (such as custodial) below the \$50,000 threshold are exempt from this requirement and would be impacted. In addition, numerous non-service contracts in which vendors employ staff at minimum wage would also be impacted. Many contracts entered into since 2008 have a provision that allows the contractor to seek a price adjustment if the minimum wage is increased, whereas some contracts do not. As a result, the timing of these impacts is uncertain.

In general, labor costs comprise approximately 80% of the cost of

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<sup>2</sup> Estimate does not include costs to non-appropriated funds, such as the operating funds for the constituent units of higher education.

these contracts. The full impact to state contract costs is difficult to quantify. The Department of Administrative Services has identified approximately 150 contracts worth an estimated \$3 million that would be potentially impacted, resulting in increased annual costs estimated at \$72,000 in FY 14 and \$144,000 in FY 15. The Department of Transportation has similarly identified several contracts which would be impacted, resulting in increased annual costs up to \$100,000. In total, it is estimated that state contracts could be impacted by as much as \$250,000 in FY 14 and \$500,000 in FY 15.

***Other***

The bill may result in additional costs to some municipalities and state agencies due to wage compression. This refers to an increase in wages currently slightly above a new minimum wage due to an increase in the minimum wage.

***The Out Years***

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation, as measured by the Consumer Price Index.

*Sources: City of New Haven  
Core-CT Financial Accounting System  
Town of Avon*

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**OLR Bill Analysis****sSB 387*****AN ACT INCREASING THE MINIMUM FAIR WAGE.*****SUMMARY:**

This bill raises the hourly minimum wage from its current \$8.25 to \$9.00 on January 1, 2014, and from \$9.00 to \$9.75 on January 1, 2015. Starting in 2016, it requires annual minimum wage adjustments based on increases in the Consumer Price Index for tri-state area urban wage earners and clerical workers (CPI), as calculated by the U.S. Bureau of Labor Statistics.

Existing law, unchanged by the bill, allows the employers of hotel and restaurant staff and bartenders who customarily receive tips to count these employees' tips as a portion of their minimum wage requirement. This minimum wage "tip credit," lowers the employer's share of the minimum wage, as long as the employee's tips make up the difference. The bill's minimum wage increases will increase the employer's share of the hotel and wait staff wage from its current \$5.69 to \$6.21 in 2014, and to \$6.73 in 2015. They increase the employer's share of a bartender's wage from its current \$7.34 to \$8.01 in 2014, and to \$8.68 in 2015. Once CPI indexing begins, the employer's share of the hotel, wait staff, or bartender wages will rise at the same percentage rate as the overall minimum wage.

The law, unchanged by the bill, allows learners, beginners, and people under age 18 to be paid 85% of the minimum wage for the first 200 hours of their employment. In effect, the bill's minimum wage increases raise this wage from its current \$7.01 to \$7.65 in 2014, and to \$8.29 in 2015. Once CPI indexing begins, the wage will rise at the same percentage rate as the overall minimum wage.

EFFECTIVE DATE: July 1, 2013

### ANNUAL CPI BASED ADJUSTMENT

By July 15, 2015, and every year thereafter, the bill requires the labor commissioner to announce an adjustment, if any, to the minimum wage based on the CPI's percentage increase during the last complete calendar year. The amount of any corresponding wage increase is rounded to the nearest five cents and the new minimum wage is effective on January 1 of the next calendar year.

### TIP CREDIT

Existing law allows tips to comprise 31% of the minimum wage for hotel and restaurant employees and 11% of the minimum wage for bartenders. As long as the employees' tips make up the difference, this allows hotel and restaurant staffs' employers to pay them 69% of the minimum wage, and bartenders' employers to pay them 89% of the minimum wage. Although the bill does not adjust the tip credit percentages, the bill's minimum wage increases will increase the amount these employers must pay. Table's 1 and 2 show the wage increase's effect on tip credit amounts.

**Table 1: The Hotel and Restaurant Employee's Tip Credit**

Year	Min. Wage	Tip Credit (31%)	Employer's Share of Wage
<b>2013</b> (current law)	\$8.25	(\$8.25 x .31) \$2.56	(\$8.25 - \$2.56) <b>\$5.69</b>
<b>2014</b> (the bill)	\$9.00	(\$9.00 x .31) \$2.79	(\$9.00 - \$2.79) <b>\$6.21</b>
<b>2015</b> (the bill)	\$9.75	(\$9.75 x .31) \$3.02	(\$9.75 - \$3.02) <b>\$6.73</b>

**Table 2: The Bartender's Tip Credit**

Year	Min. Wage	Tip Credit (11%)	Employer's Share of Wage
<b>2013</b> (current law)	\$8.25	(\$8.25 x .11) \$0.91	(\$8.25 - \$0.91) <b>\$7.34</b>
<b>2014</b> (the bill)	\$9.00	(\$9.00 x .11) \$0.99	(\$9.00 - \$0.99) <b>\$8.01</b>



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<b>2015</b> (the bill)	\$9.75	(\$9.75 x .11) \$1.07	(\$9.75 - \$1.07) <b>\$8.68</b>
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**COMMITTEE ACTION**

Labor and Public Employees Committee

Joint Favorable Substitute

Yea 7 Nay 4 (02/28/2013)